Gas Supply Issues

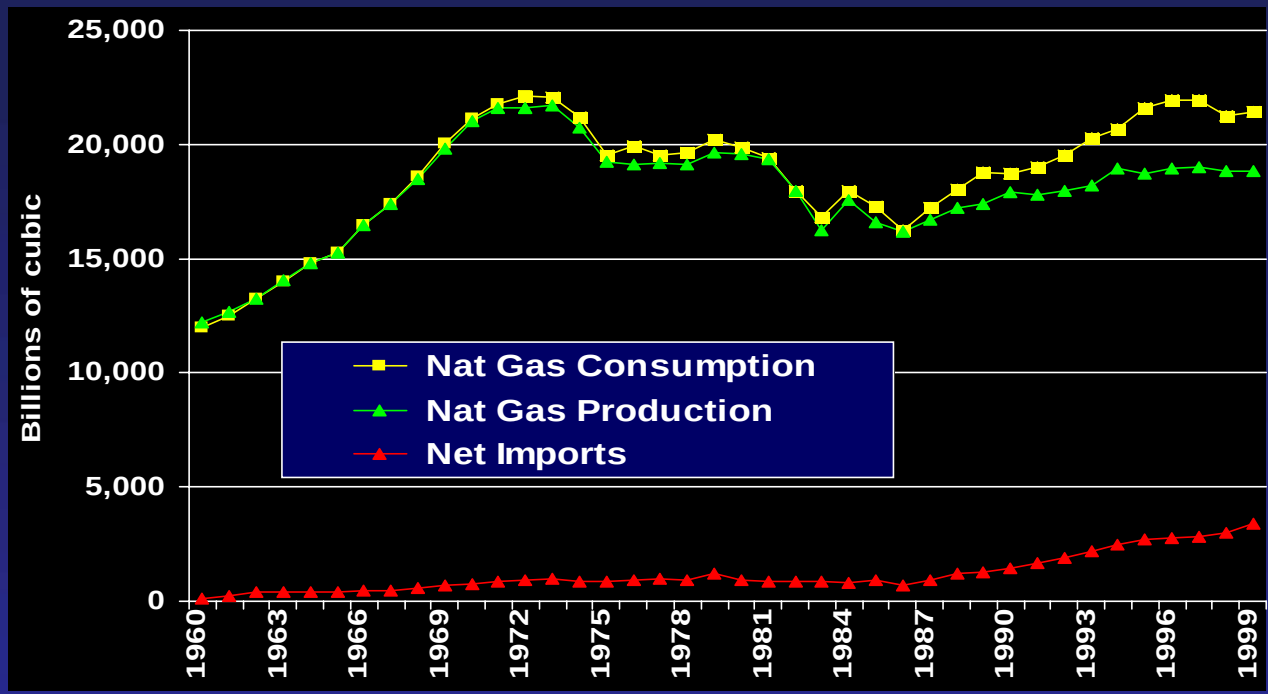
May 14, 2002

Anadarko Petroleum Corporation

How We Got Here

The present situation is deeply rooted in long-term fundamental forces.

- Regulation in 70's and 80's sent contradictory signals
  - *"Gas Bubble" developed*
- Demand resumed growth in the late 1980's, but prices remained low as we used up spare capacity
- We burned through our gas bubble
- Then we used up the Canadian shut-in capacity
- The pantry is now empty

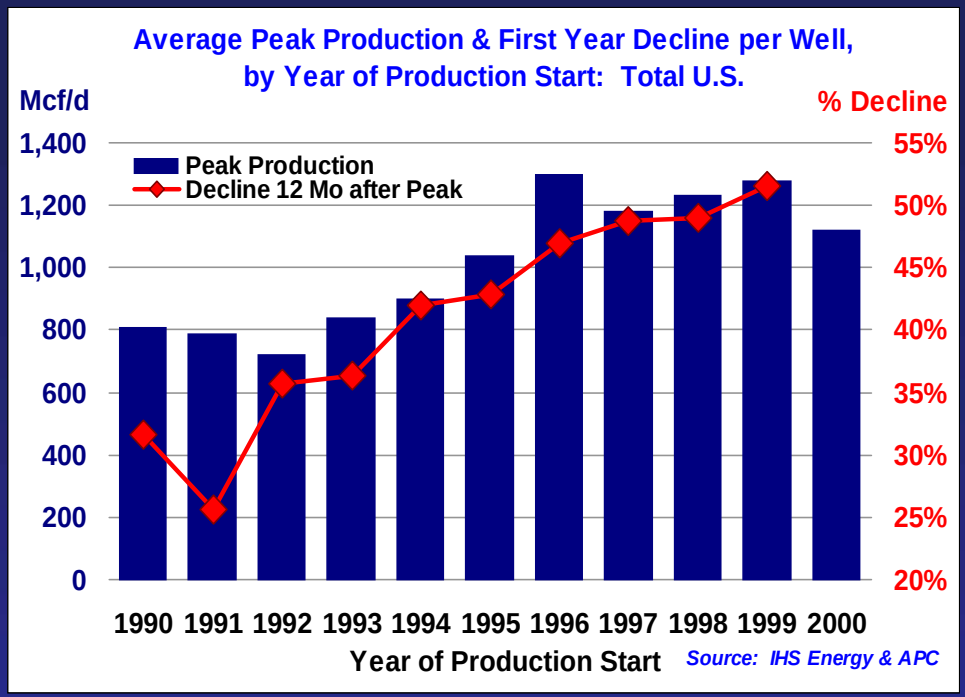


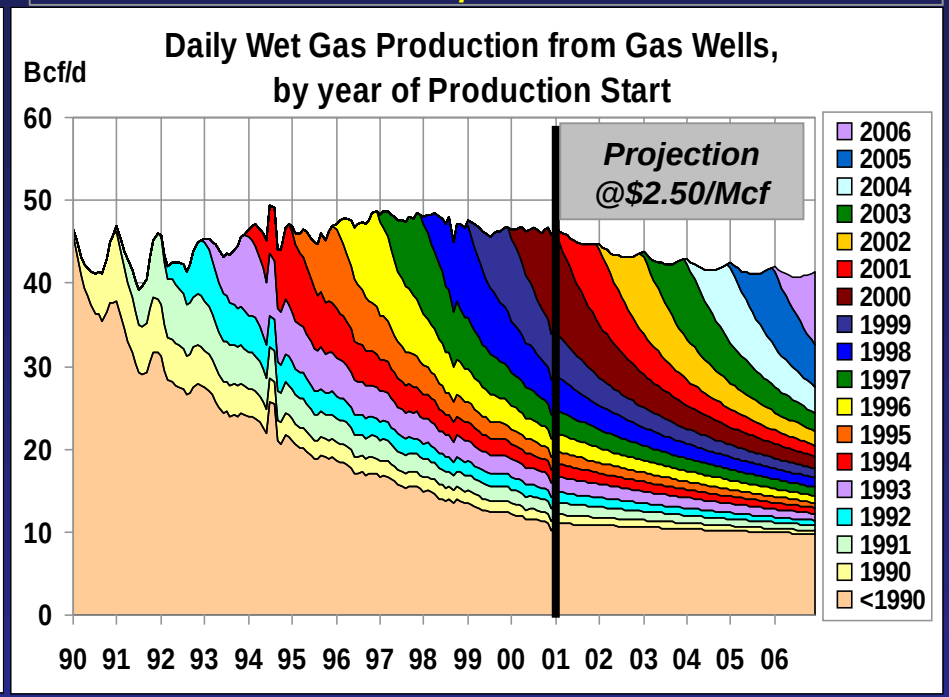
Gas Supply: Hard to Maintain

Increasing decline rates for new wells will quickly erode supply base.

- Underlying production declines continue to accelerate
- Preliminary data suggests 2001 wells' production will decline by >50% in the first 12 months
- Supply will decline at $2.50 per Mcf

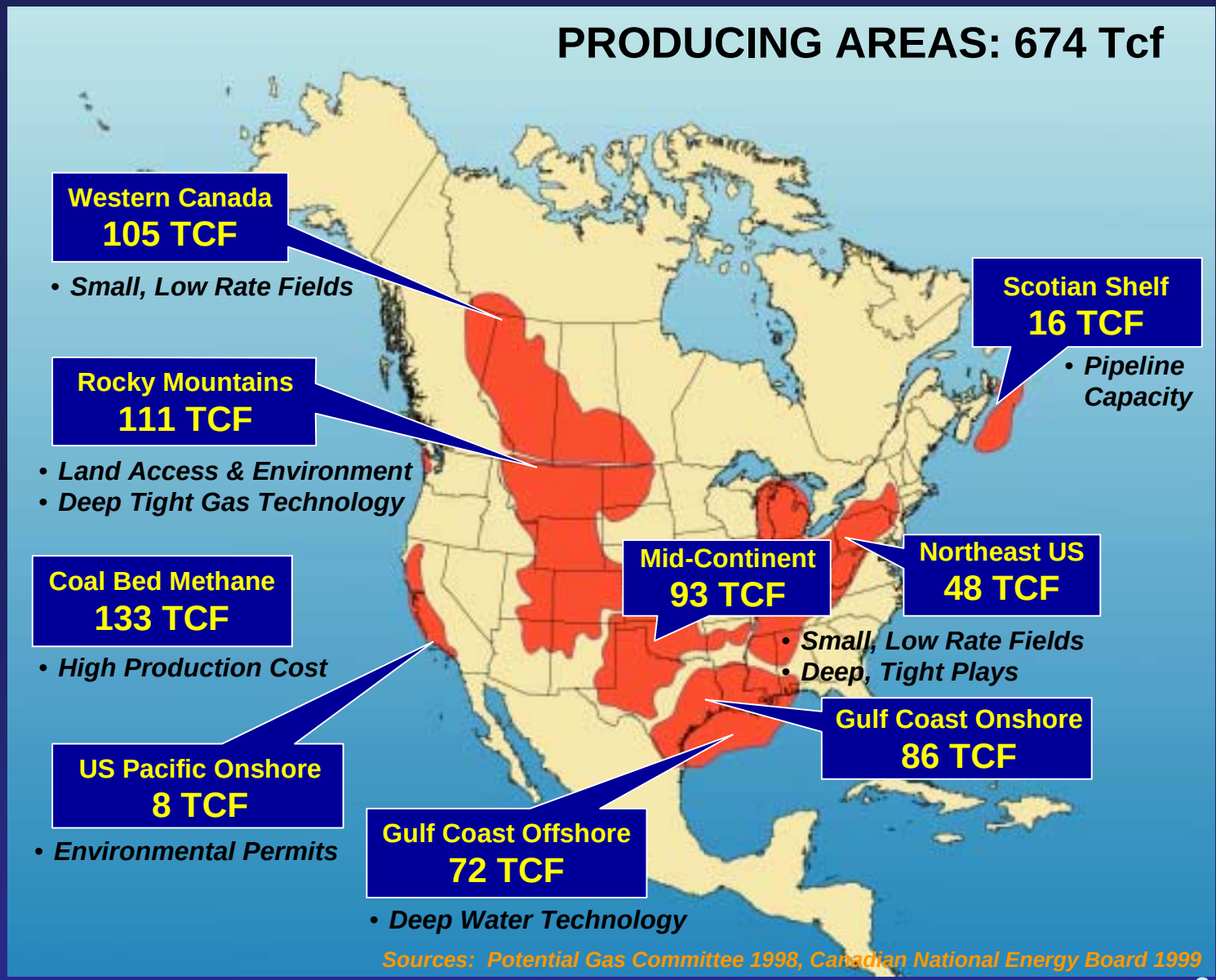
Dry Gas Production Estimate @$2.50/ Mcf
Result: 1.5% per Year Decline





Resource Exists, but Access Difficult and More Expensive

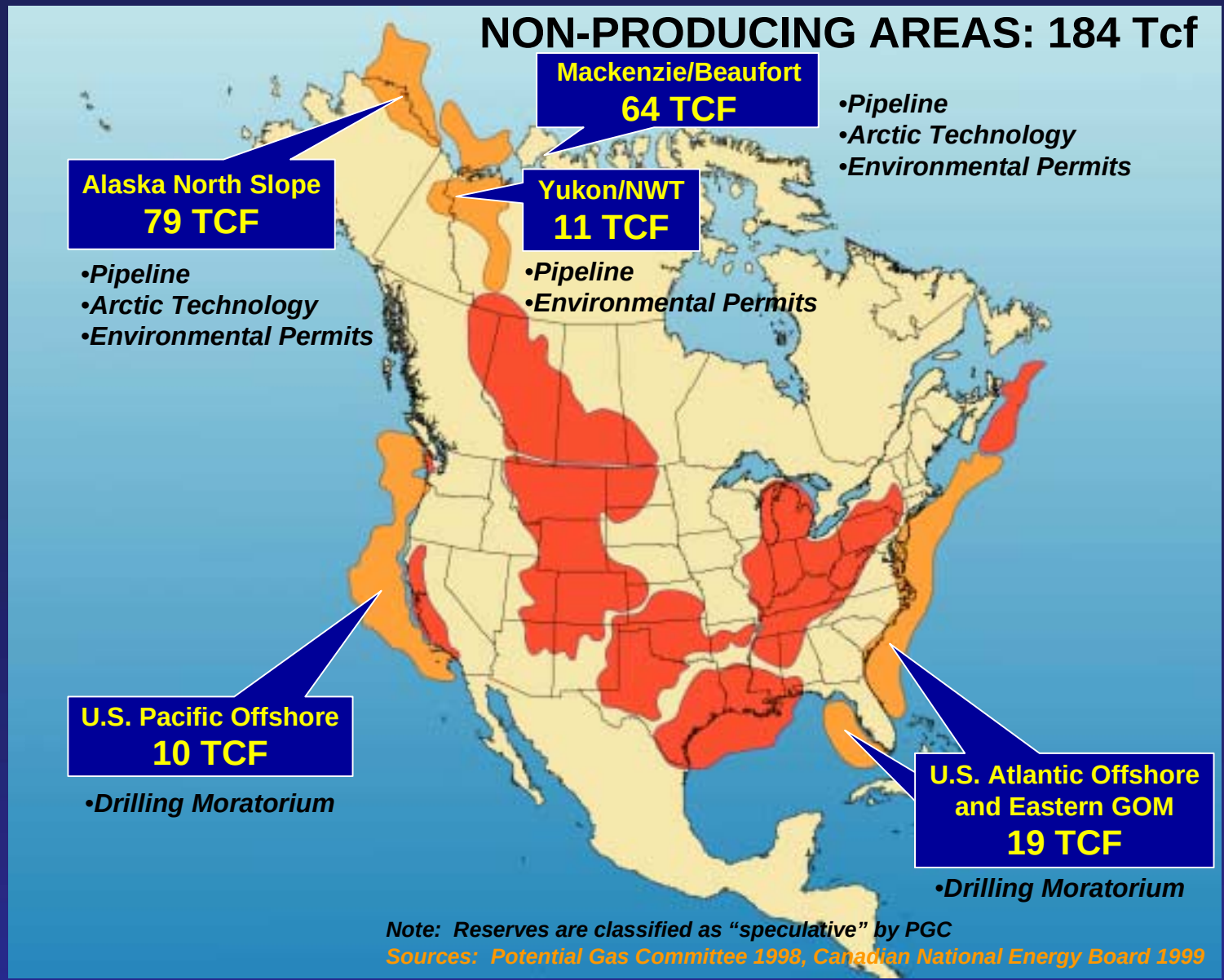
Development is limited by impeded land access, deteriorating economic viability, and technological capacity.



Frontier Areas - No Short Term Help

The most economic means to large production increases would be access to underexplored coastal areas.

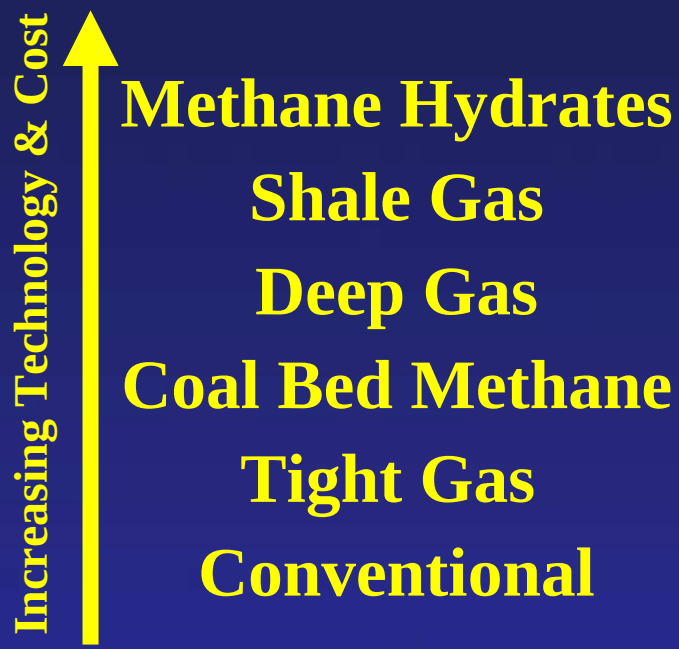
Once exploration begins, reserves could increase by 5 - 10 fold.



The Resource Frontier

The E&P industry is pushing technology to tap resources beyond conventional gas.

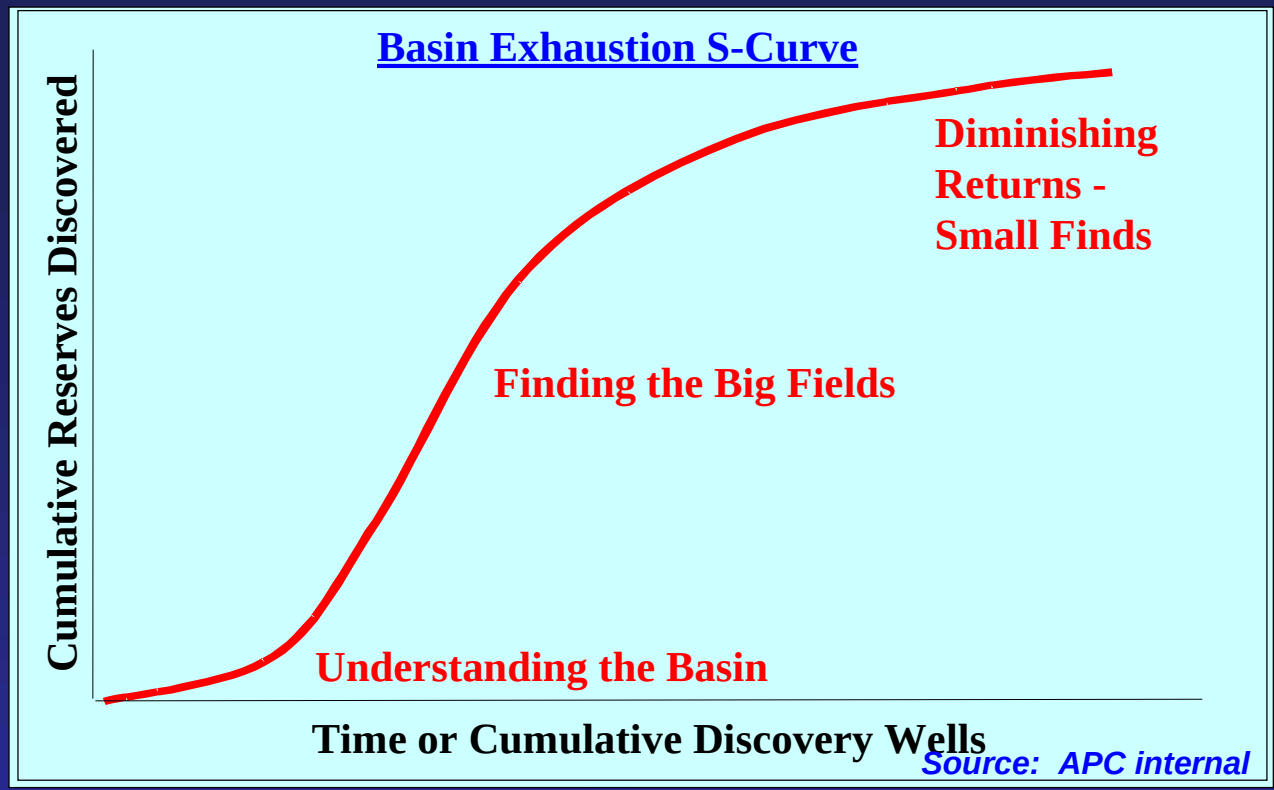
- Economics of gas so far have allowed development of mostly conventional resources
- Technological innovations have recently opened tight gas and coal bed methane for development
- Very large resources base remains uneconomic with current technology



Obstacle: Basin Exhaustion

- Picture the life of a basin as an S-Curve
  - *Early efforts find small fields as knowledge grows*
  - *Explorers quickly find the largest fields*
  - *Remaining fields are smaller and harder to find*
  - *Incremental discoveries add fewer reserves*

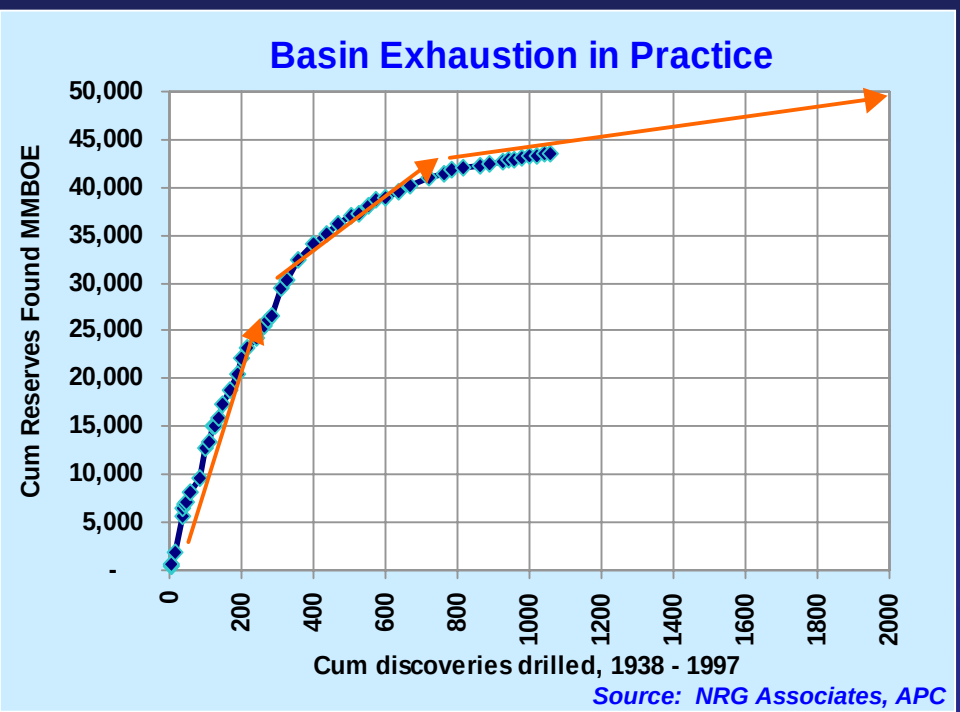
Basin Exhaustion is a geologic reality.

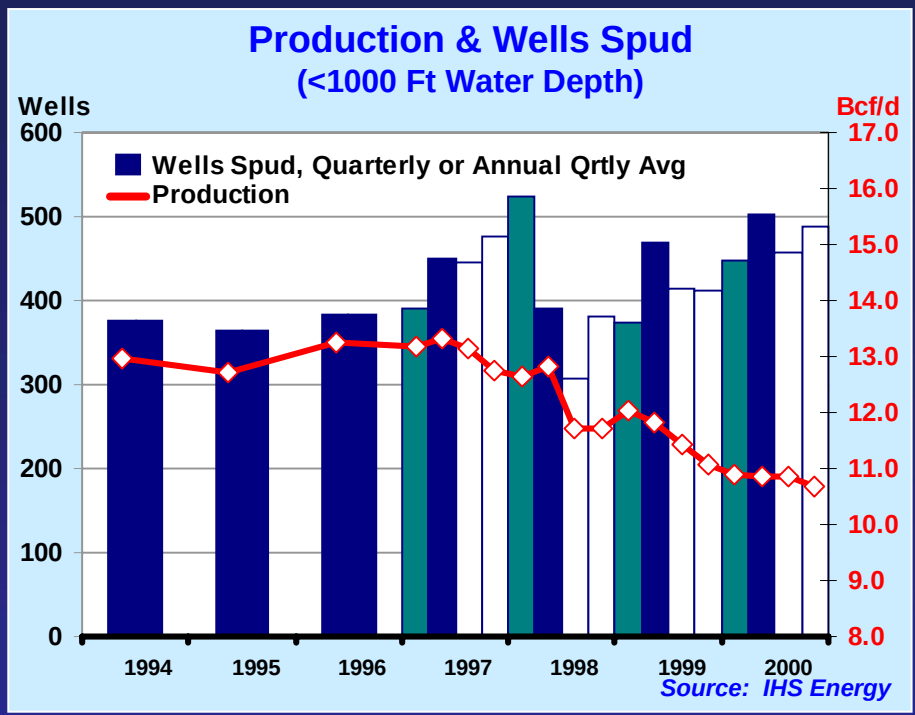


Basin Exhaustion in Practice: the GOM Shelf

Even at high prices and increased activity, some basins are so exhausted that production decline is inevitable.

- Increasingly difficult to add reserves in SW GOM
  - *First 1000 discoveries yielded >40 BBOE of reserves*
  - *Next 1000 discoveries will generate max 6 BBOE*
- Production cannot overcome reality of declining resource
- Mid-Continent in a similar predicament
- Texas still somewhere in upper-middle of the curve

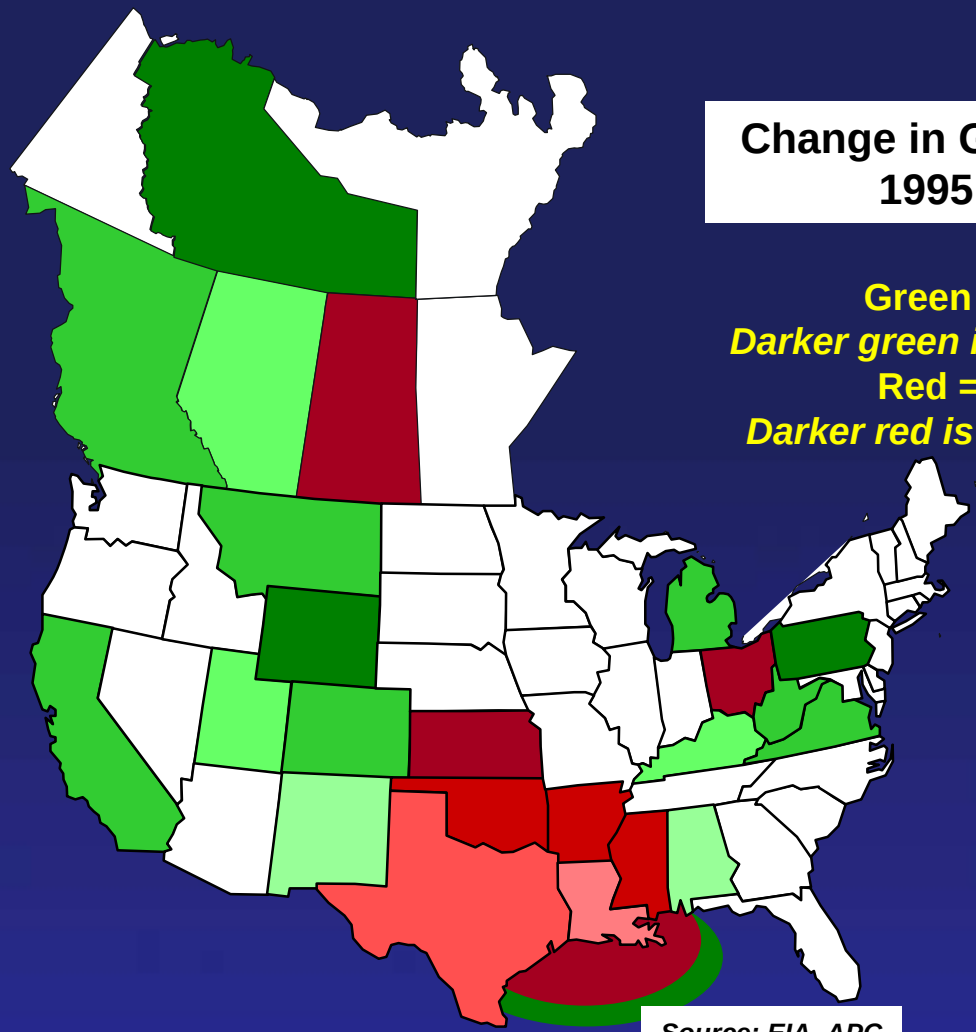




Seeking Fresh Basins

- Departure from traditional “Oil Patch” - Texas, Louisiana, Oklahoma, GOM Shelf
- Increase in Rocky Mountain states & Deep GOM

Over time, the industry has migrated to areas that are on the bottom or middle portions of the S-curve.



Change in Gas Production: 1995 vs. 2000

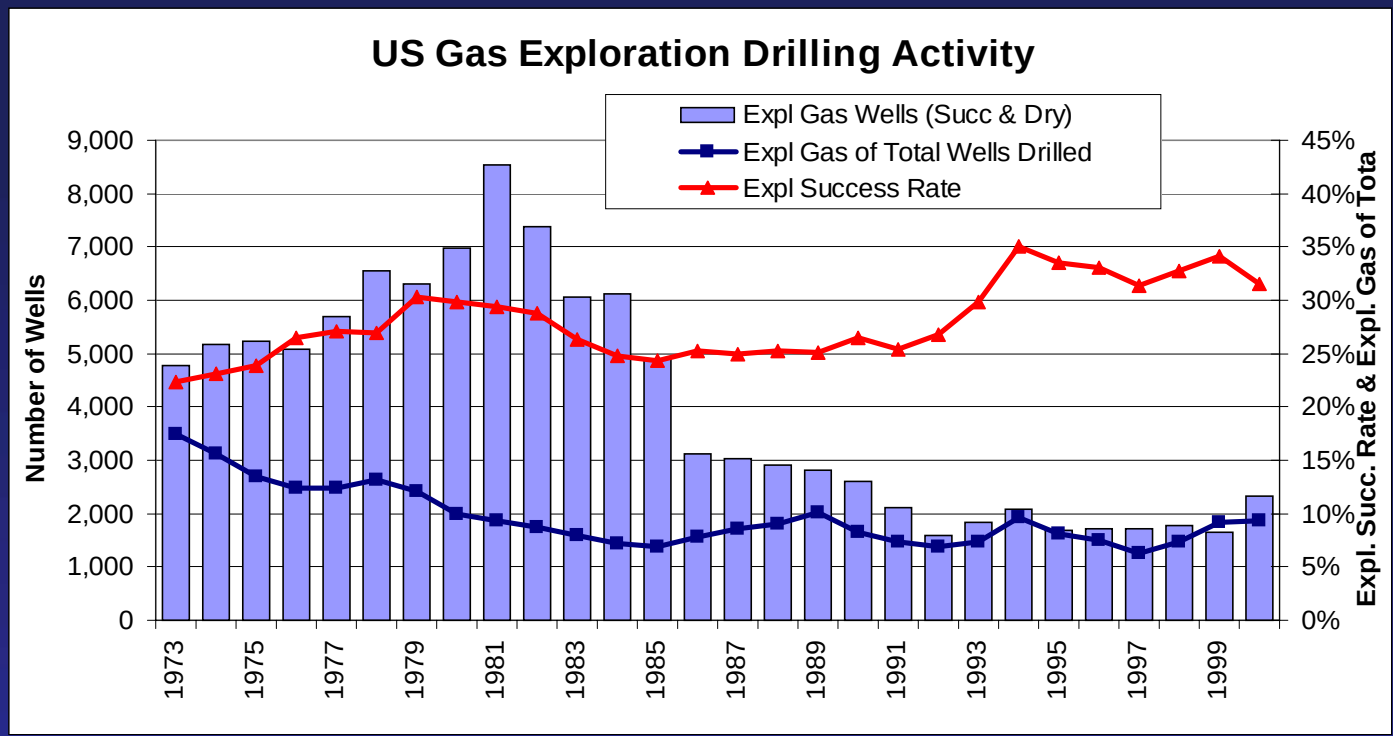
Green = increase
Darker green is greater increase
Red = decrease
Darker red is greater decrease

Source: EIA, APC

Obstacle: Dearth of Good Prospects

Infill drilling is unlikely to add significant supplies.

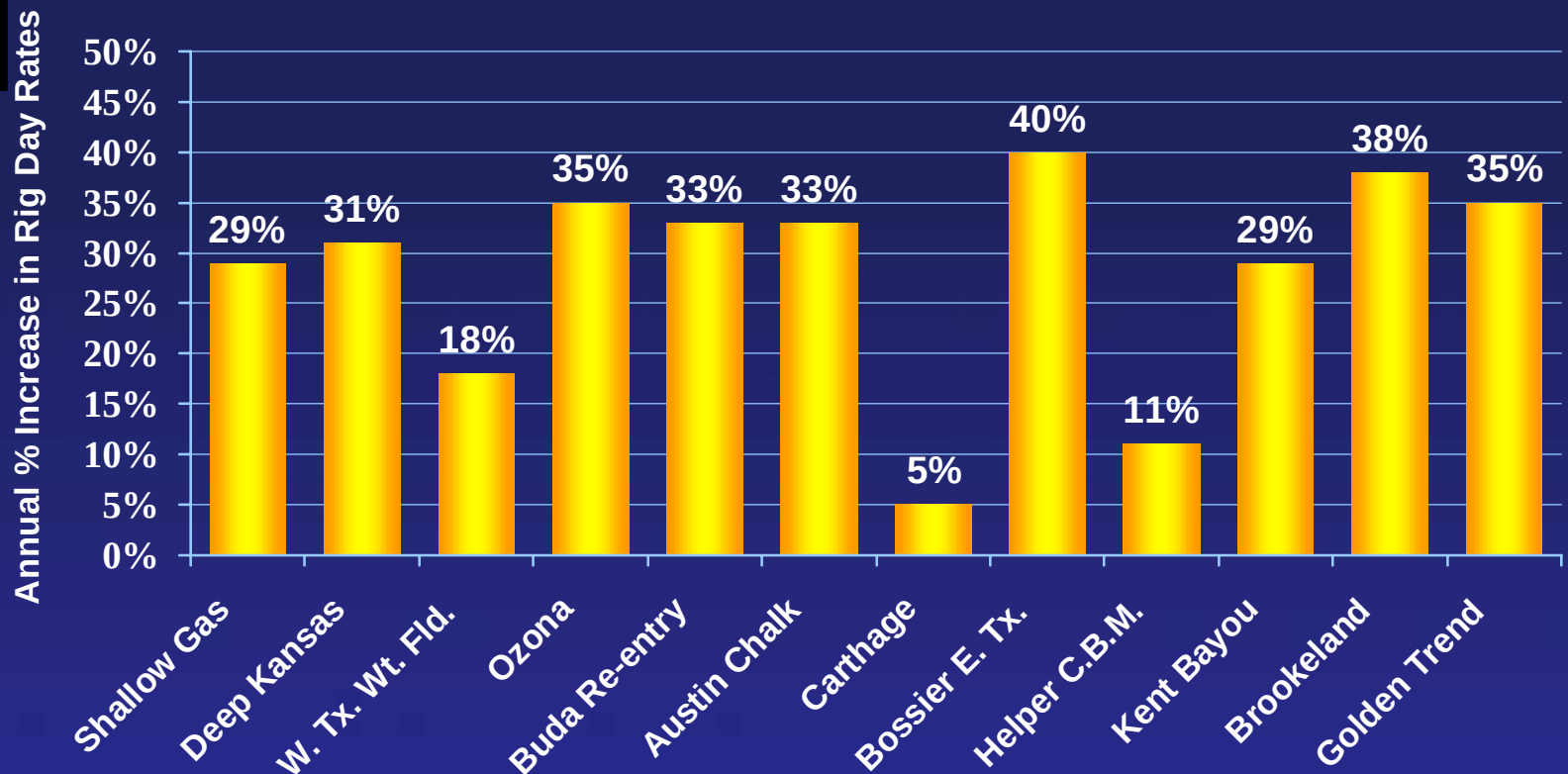
- Industry MUST explore to achieve growth
- Most drilling continues to focus on exploiting the discovered resource base
  - *Lack of geo-scientists has left exploration inventories lean*
  - *Some producers are actually giving back rigs*
  - *Expect rigs to drill increasingly marginal wells*



Obstacle: Hardware Constraints

The costs of carrying out E&P programs can rise dramatically, reducing the ersults of the activity.

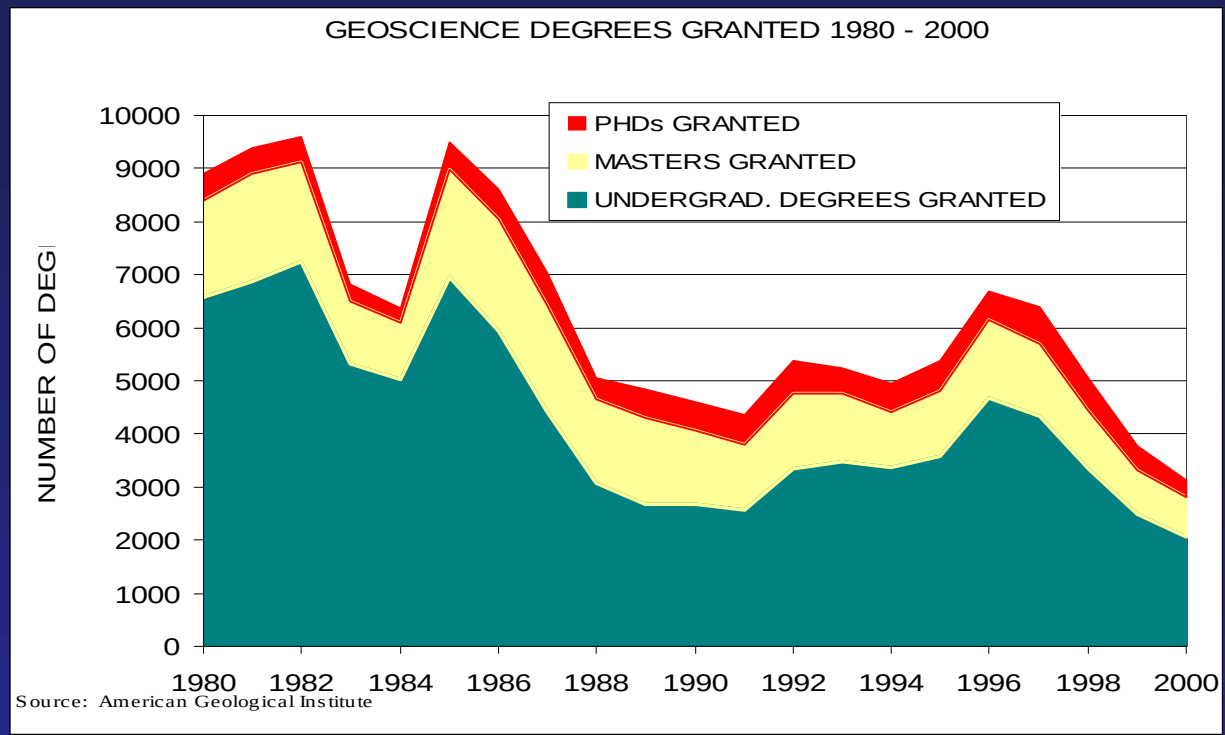
- The current fleet of rigs and other infrastructure date back twenty years or more.
  - *Incremental rigs show declining productivity*
  - *The capabilities of the rig fleet do not match the requirements of tomorrow's wells.*



Obstacle: Human Resource Constraints

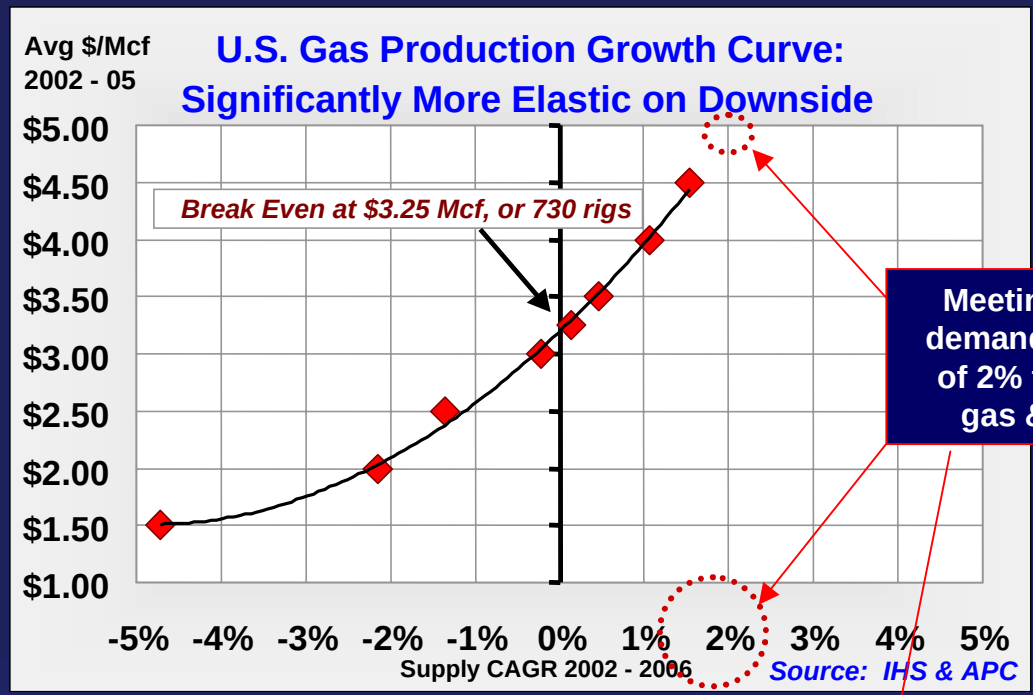
- Service industry having difficulty attracting people
- Few experienced geo-scientists remaining
  - *Focus on near-term performance has led to layoffs inside companies*
  - *Small prospect generators are retired/retrained*
- Building experience requires time and mistakes

Relentless reductions in manpower have eroded industry's capacity to grow organically.

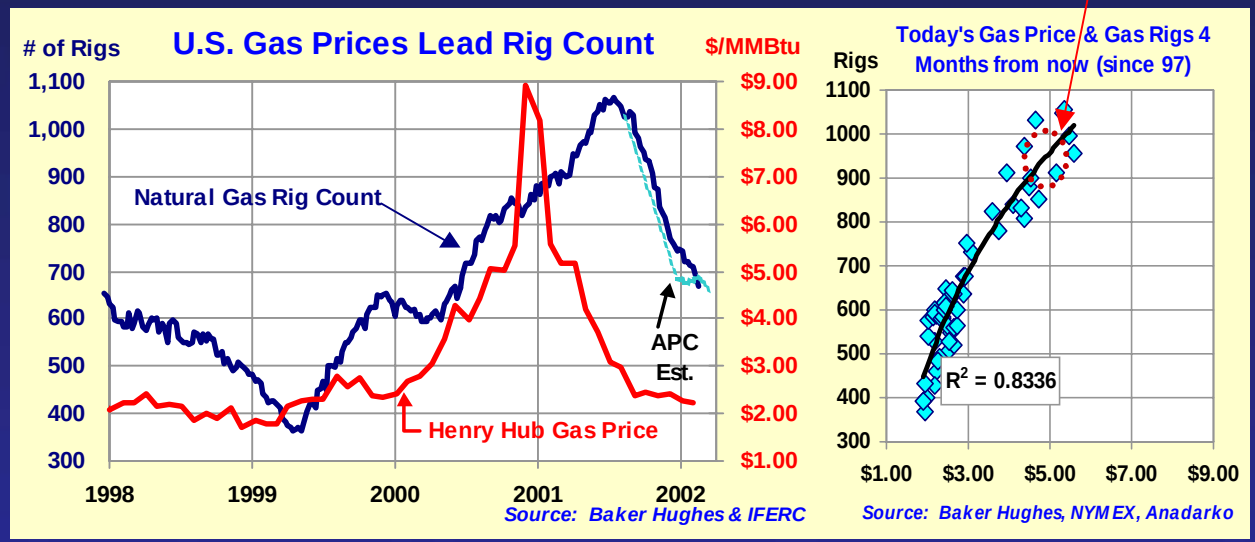


Growth Requires Higher Mean Price

Supply shrinks quickly as falling prices reduce activity; however, even high prices and activity cannot grow supply dramatically.



Meeting historical demand growth rate of 2% takes $5.00+ gas & 900+ rigs



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